

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2651
ANSWERED ON:17.03.2006
PENALTY IMPOSED ON BANKS
Mohite Shri Subodh

Will the Minister of FINANCE be pleased to state:

- (a) Whether Reserve Bank of India has imposed fines on several banks for their role in the recent initial public offer allotment case;
- (b) if so, the details of fine, bank-wise;
- (c) Whether the Government proposes to make investigation through Serious Fraud Investigation Office in this regard;
- (d) If so, the reasons therefor; and
- (e) The steps taken to stop recurrence of such cases?

Answer

MINISTER OF THE STATE IN THE MINISTER OF FINANCE (SHRI P. K. BANSAL)

(a): Yes, Sir.

(b): Reserve Bank of India in exercise of powers vested in it under the provisions of Section 47 A (1) (b) of the Banking Regulation Act, 1949 imposed monetary penalties, on January 23, 2006, on seven scheduled commercial banks viz. Bharat Overseas Bank Ltd. (Rs.20 lakh), Indian Overseas Bank (Rs.15 lakh), Vijaya Bank (Rs.10 lakh), HDFC Bank (Rs.5 lakh), ICICI Bank Ltd., (Rs.5 lakh), Citibank (Rs.5 lakh), and Standard Chartered Bank (Rs.5 lakh).

Further, on February 24, 2006, Reserve Bank of India in exercise of powers vested in it under the provisions of the above Act, imposed monetary penalties, on three scheduled commercial banks viz. HDFC Bank Ltd. (Rs.25 lakh), ING Vysya Bank (Rs.10 lakh) and IDBI Ltd. (Rs.5 lakh).

(c) and (d): The information is being collected and would be laid on the Table of the House.

(e): The following steps have been taken to stop recurrence of such cases:

Penal action was taken under section 47 A (1) (b) of the Banking Regulation Act, 1949 against nine banks with HDFC having been penalised twice.

The Home Regulators of the two foreign banks involved were apprised of the fact of the imposition of the penalties.

Some banks had credited the proceeds of individual refund orders (account payee cheques) into third party accounts instead of the individual accounts on the request of the associates of the DPs. This had resulted in the manipulation of the payment system and facilitated the perpetration of irregularities. This manipulation would not have taken place but for the banks deviating from the procedure for collection of account payee cheques. Accordingly, a directive was issued on January 23, 2006, prohibiting the banks from crediting 'account payee' cheques to account of any person other than the payee named therein.

All scheduled commercial banks, excluding RRBs, were advised on 05.01.2006 to take a review of IPO financing and related matters, like opening of multiple accounts, adherence to KYC/ AML guidelines, and RBI instructions on IPO financing, advances against shares, etc. and put up a report on the findings before their Audit Committees under advice to RBI.

SEBI has taken number of immediate measures to further streamline the system in order to prevent recurrence of similar instances of market abuse in the case of IPOs in future. The steps taken by SEBI inter alia include the following:

@ As directed by SEBI, the depositories, i.e., NSDL and CDSL have advised their respective depository participants (DPs) to verify the genuineness of the dematerialized account-holders where 20 or more dematerialized account-holders have a common address and to close those dematerialized accounts where the DPs are unable to do the above verification.

@ The depositories have been directed to form a co-ordination committee to co-ordinate with the surveillance department of SEBI for monitoring abnormal transactions in dematerialized accounts.

@ Depositories have been advised to put in place a system including the necessary software to identify multiple accounts suspected to be benami / fictitious.

@ To check misuse through off-market transfer prior to listing, SEBI, vide circular dated January 19, 2006, has advised the

depositories that in case of IPOs they should activate the ISINs only on the date of commencement of trading on the stock exchanges.